

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 /110 W

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R 020930Z NOV 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 3340

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY APARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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PASS FEDERAL RESERVE, LABOR AND EXIMBANK

TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - OCT 29 - NOV 2

1. SUMMARY: DEPUTY PRIME MINISTER FUKUDA, REACTING TO GROWING CONCERN ABOUT PACE OF ECONOMIC RECOVERY IN JAPAN, ANNOUNCED THAT MINISTERIAL COUNCIL ON ECONOMIC AFFAIRS WHICH HE CHAIRS WILL MEET TO CONSIDER POSSIBLE FURTHER STIMULUS TO ECONOMY; SOME FURTHER, LIMITED MEASURES SEEM LIKELY. SEPTEMBER NEW CONSTRUCTION ORDERS ADVANCE STRONGLY, PROVIDING BRIGHT SPOT ON DOMESTIC ECONOMIC SCENE. OFFICIAL FOREIGN EXCHANGE RESERVE INCREASE IN OCT DECLINES TO \$88 MIL. END SUMMARY.

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2. DEPUTY PM FUKUDA HAS ANNOUNCED HE WILL CALL MEETING OF THE MINISTERIAL COUNCIL ON ECONOMIC AFFAIRS AFTER NOV 10 TO DISCUSS WHETHER ADDITIONAL STEPS TO STIMULATE ECONOMY SHOULD BE TAKEN BY GOJ. ACCORDING TO FUKUDA, MEETING OF THE COUNCIL (WHICH WOULD BE FIRST IN SIX MONTHS) IS NECESSARY TO "STUDY SERIOUSLY NATION'S ECONOMIC CONDITION." RECENT INDICATORS, INCLUDING SUCCESSIVE DECLINES IN PRODUCTION AND SHIPMENTS AND SLUGGISH BUSINESS INVESTMENT, HAVE LED TO CALLS IN SOME GOVT QUARTERS (EG MITI) AND INDUSTRY CIRCLES FOR FURTHER GOJ MEASURES TO MAINTAIN RECOVERY. DEPUTY PM SAID HE WOULD NOT CONSIDER MAJOR CHANGES IN BASIC ECONOMIC POLICY NOW; IN HIS VIEW THERE HAS BEEN NO SUBSTNTIAL CHANGE IN JAPAN'S ECONOMIC PICTURE. HOWEVER, FA T MITI MINISTER KOMOTO HAS CALLED FOR FURTHER GOJ EFFORTS TO STIMULATE ECONOMY; GROWING RECOGNITION THAT EXPORTS CANNOT IN FUTURE PROVIDE SAME STIMULUS TO RECOVERY AS THEY HAVE TO DATE; AND PROSPECT OF ELECTIONS IN DECEMBER; ALL SUGGEST THAT SOME LIMITED STEPS TO INCREASE DOMESTIC DEMAND ARE LIKELY TO BE ANNOUNCED IN NOVEMBER.

3. NEW CONSTRUCTION ORDERS ROSE STRONGLY IN SEPT. SEASONALLY ADJUSTED NEW ORDERS FOR CONSTRUCTION PLACED BY GOVT AND PUBLIC AGENCIES (JEI 324) ROSE 11.4 PERCENT FROM PRIOR MONTH, TO EGISTER THIRD SUCCESSIVE MONTHLY INCREASE. NEW PRRIATE CONSTRUCTION ORDERS (JEI 325) WERE UP 10.7 PERCENT IN SEPT. YEN 685 BIL IN THIRD QUARTER NEW PUBLIC CONSTRUCTION ORDERS WAS RECORD FIGURE FOR JAPAN. MOREOVER, ALTHOUGH PRIVATE CONSTRUCTION ORDER REMAIN BELOW JAN-MAR 1976 LEVEL, JULY-SEPT FIGURES INDICATE STRONG REBOUND FROM THIS YEAR'S SECOND QUARTER SLUMP.

NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED, 1976
(BIL YEN; PCT CHANGE FROM PRIOR PERIOD IN PAREN)

	GOVT/PUBLIC	PRIVATE
JAN-MAR AVG	205.9 (-5.5)	255.2 (11.0)
MAY-JUNE AVE	197.5 (-4.1)	219.4 (-14.0)
JUL-SEP AVG	228.2 (15.5)	243.8 (11.1)
JULY	217.2 (4.9)	248.3 (9.9)

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AUG	221.1 (1.2)	229.3 (-7.7)
SEPT (P)	246.3 (11.4)	253.8 (10.7)

4. JAPAN'S FOREX RESERVES AT END OF OCT REACHED \$16,577 MIL, AN INCREASE OF \$88 MIL OVER PRIOR MONTH, MOF ANNOUNCED MONDAY. COMMENTING ON RELEASE, MOF OFFICIALS NOTED THAT THIS WAS FIRST TIME THIS YEAR THAT MONTHLY INCREASE DROPPED BELOW \$100 MIL MARK, AND CITED TWO REASONS FOR THE SMALLER

INCREASE IN RESERVES: (1) EXPECTED SMALLER OCT TRADE SURPLUS RESULTING FROM SIZEABLE INCREASE IN IMPORTS, EVEN THOUGH EXPORTS CONTINUED TO GROW; AND (2) LONG-TERM CAPITAL ACCOUNT REGISTERED A LARGER OUTFLOW DUE TO LOW LEVELS OF FOREIGN INVESTMENT IN JAPANESE SECURITIES WHILE JAPAN'S INVESTMENTS ABROAD WERE ON INCREASE.

5. YIELDS ON GOJ AND NTT BONDS ROSE SOMEWHAT FURTHER IN OCT WHEREAS CORPORATE BOND YIELDS DECLINED SLIGHTLY. SECONDARY BOND MARKET BEGAN OCT IN SOMEWHAT SOFT MOOD THOUGH BECAME BULLISH TOWARD MONTH-END, ACCORDING TO TOKYO STOCK EXCHANGE SPECIALISTS. BOJ GOV MORINAGA REPORTEDLY MADE COMMENTS FAVORABLE TO LONG-TERM RATE REDUCTIONS IN NEAR FUTURE AT PRESS CONFERENCE ON OCT 28. AVERAGE CONTRACT LENDING RATE FOR JAPANESE COMMERCIAL BANKS CONTINUED TO DECLINE IN SEPT AND REACHED 8.2 PERCENT PER ANNUM AT MONTH END. THIS BROUGHT TO 1.2 PERCENTAGE POINTS THE CUMULATIVE DECLINE IN COMMERCIAL BANK LOAN RATE SINCE SERIES OF BOJ DISCOUNT RATE DECREASES BEGAN IN APRIL 1975.

BOND YIELDS, YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)

	TELEPHONE AND GOJ BONDS	TELEGRAPH BONDS	CORPORATE BONDS
AUG	8.717	8.952	8.832
SEPT	8.768	9.014	8.845
OCT	8.769	9.098	8.919

6. FIGURES RELEASED THIS PAST WEEK SHOW THAT THE AVERAGE PROPENSITY TO SAVE, SEASONALLY ADJUSTED, ROSE TO 22.1 PERCENT IN AUG. SEASONALLY ADJUSTED DISPOSABLE INCOME ROSE 1.3 PERCENT FROM PRIOR MONTH, WHILE EXPENDITURES INCREASED BY ONLY 0.3 PERCENT. COMPARED WITH YEAR UNCLASSIFIED

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EARLIER,, AUG DISPOSABLE INCOME WAS UP 3.2 PERCENT IN NOMINAL TERMS BUT DOWN 5.5 PERCENT IN REAL TERMS. OTHER RELATED FIGURES RELEASED THIS PAST WEEK SHOW SAVINGS DEPOSITS AT ALL FINANCIAL INSTITUTIONS ROSE 3.3 PERCENT IN THIRD QUARTER (N.S.A.,) A SLOWER RATE OF INCREASE THAN 3.9 PERCENT RISE REGISTERED IN THIRD QUARTER LAST YEAR. BOJ OFFICIALS ATTRIBUTED MODEST THIRD QUARTER INCREASE TO UNUSUALLY SMALL SUMMER BONUSES (WHICH RECORDED LOWEST YEAR-TO-YEAR PERCENT INCREASE IN DECADE). FOR YEAR ENDING SEPT 30, 1976, TOTAL SAVINGS AT FINANCIAL INSTITUTIONS WERE UP 18 PERCENT, ABOUT THE SAME AS YEAR-TO-YEAR RISE FOR END OF SEPT 1975.

AVERAGE PROPENSITY TO SAVE, SEASONALLY ADJUSTED ((JEI 363)
PERCENT OF DISPOSABLE INCOME

JUNE 22.6
JULY 21.4
AUG 22.1
HODGSON

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NNN

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